

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2

A COMPONENT UNIT OF BEAVER COUNTY, UTAH

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

WITH REPORT OF

CERTIFIED PUBLIC ACCOUNTANTS



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
A COMPONENT UNIT OF BEAVER COUNTY, UTAH**

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FINANCIAL SECTION



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

Report of Independent Certified Public Accountants

The Board of Directors
Beaver County Special Service District #2
Milford, UT 84751

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the accompanying financial statements of the governmental activities of Beaver County Special Service District #2, a component unit of Beaver County, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Service District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Beaver County Special Service District #2 as of December 31, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 5, 2006, on our consideration of the Service District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information on pages 2 through 5 and 22, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.
June 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Beaver County Service District #2's (District) financial performance provides an overview of the District's financial activities for the year ending December 31, 2005. This report is in conjunction with the District's financial statements, which are part of this report.

The purpose of the District is to provide property and equipment and other funds for the operating costs for fire protection for the District's area.

FINANCIAL HIGHLIGHTS

- Long term liabilities – A loan in the amount of \$415,000 was obtained from the PCIFB for construction of the firehouse. Construction of the fire house was complete during 2005.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements start on Page 9. These statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operation in more detail than the government-wide statements.

REPORTING THE DISTRICT AS A WHOLE

The District realizes revenue from three sources; charges for services, property tax and interest earnings. These funds are used to purchase equipment, supplies and other operating expenses. Equipment for the newly construction firehouse for Milford has been purchased during 2005.

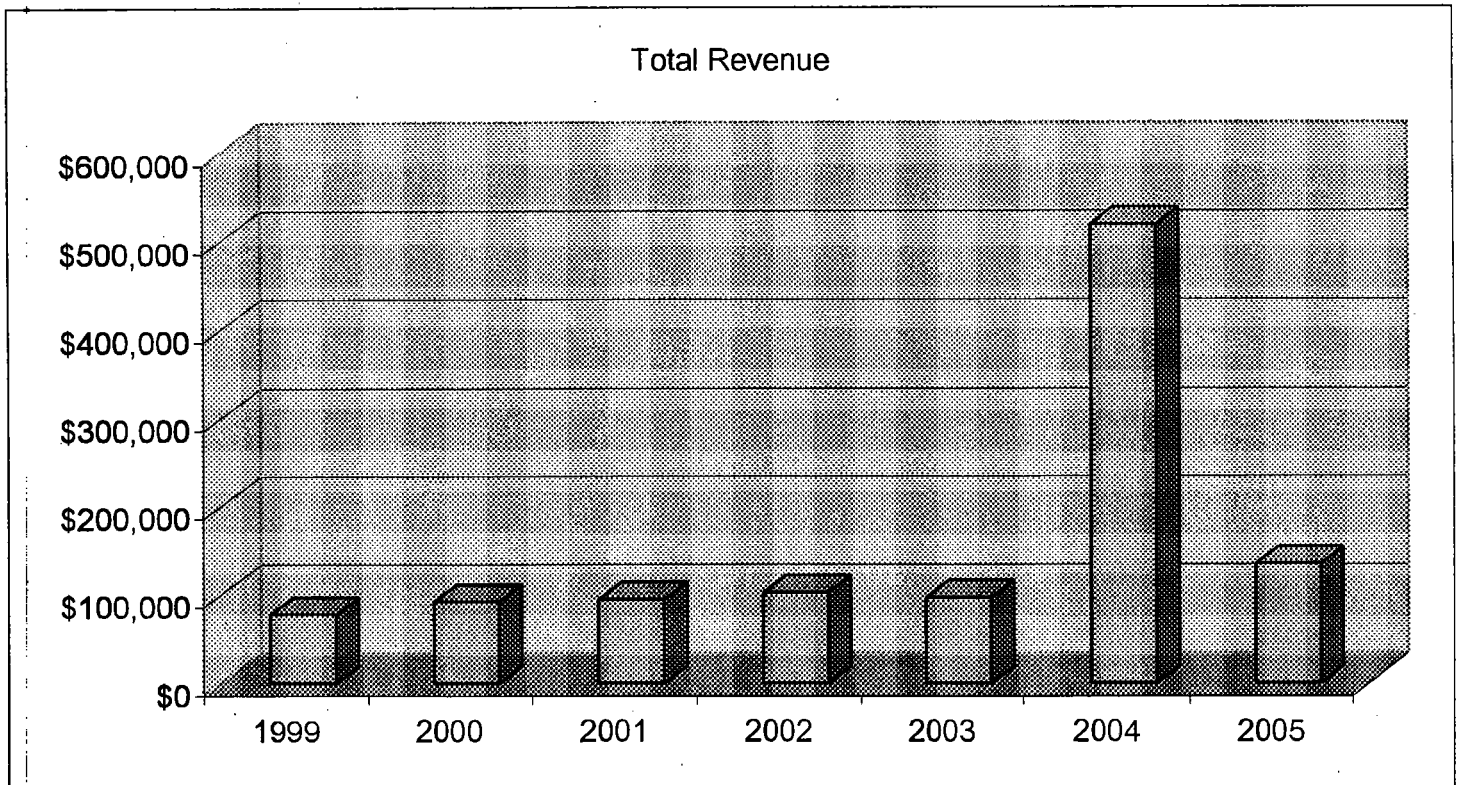
CONTACTING THE DISTRICT'S TREASURER

This financial report is designed to provide the citizens with a general overview of the District's finances and to show accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nedra Kennedy, Treasurer, P.O. Box 125, Milford, Utah 84751.

Beaver County Service District #2

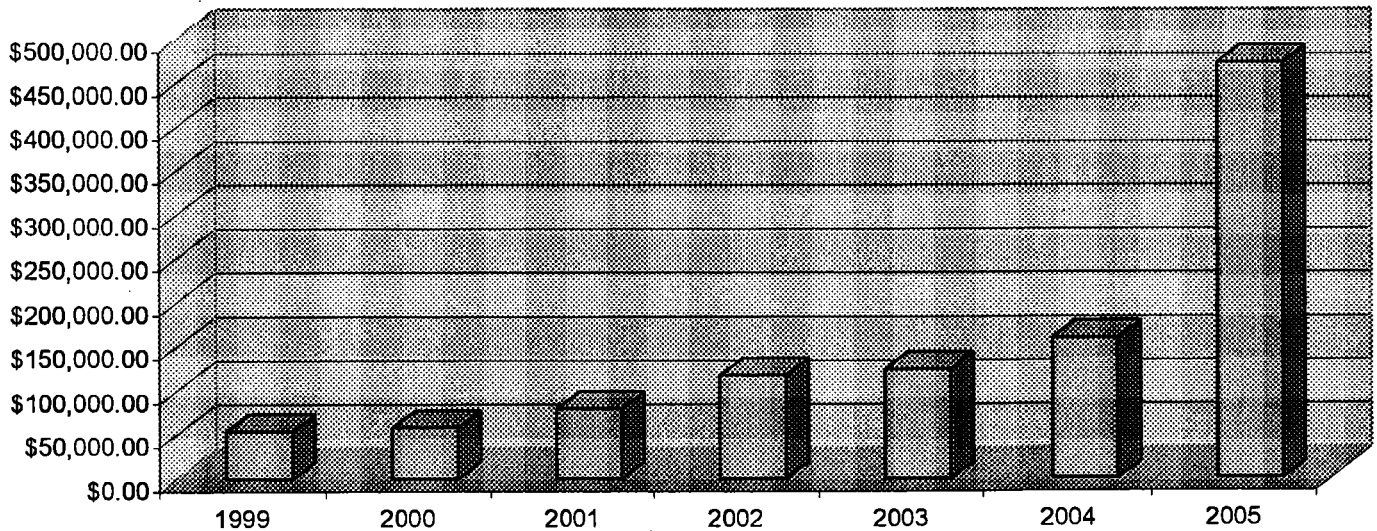
Revenue - Seven Year Comparison

	1999	2000	2001	2002	2003	2004	2005
Property Taxes	\$62,735	\$61,869	\$67,603	\$52,549	\$63,950	\$65,254	\$56,710
Delinquent Taxes	\$0	\$9,424	\$7,319	\$5,654	\$5,882	\$5,673	\$8,352
Fee In lieu of Taxes	\$2,010	\$1,448	\$434	\$2,532	\$2,639	\$2,851	\$3,824
Investment Earnings	\$419	\$3,081	\$3,857	\$1,982	\$714	\$295	\$3,742
Charges for Services	\$0	\$12,250	\$4,650	\$7,325	\$11,088	\$4,175	\$11,150
Miscellaneous Income	\$9,248	\$1,881	\$6,459	\$4,455	\$6,877	\$4,721	\$6,614
Loan Proceeds	\$0	\$0	\$0	\$0	\$0	\$416,447	\$0
Grant Income	\$2,830	\$1,805	\$3,724	\$27,745	\$5,000	\$18,812	\$44,000
Total Revenue	\$77,242	\$91,758	\$94,046	\$102,242	\$96,150	\$518,228	\$134,392



Beaver County Service District #2 Expenditures - Seven Year Comparison

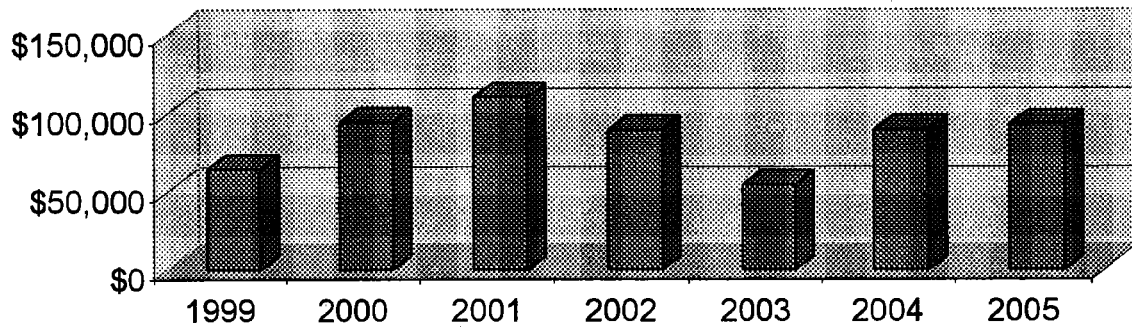
	1999	2000	2001	2002	2003	2004	2005
Accounting	\$453.00	\$485.00	\$2,096.00	\$950.00	\$1,295.00	\$1,530.00	\$1,668.00
Advertising	\$153.00	\$35.00	\$37.00	\$475.00	\$0.00	\$1,048.00	\$0.00
Auto Repair	\$5,747.00	\$2,850.00	\$1,385.00	\$3,806.00	\$5,857.00	\$1,372.00	\$0.00
Dues	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Telephone	\$488.00	\$470.00	\$524.00	\$868.00	\$936.00	\$1,618.00	\$2,003.00
Fire Chief	\$4,500.00	\$5,600.00	\$4,000.00	\$4,000.00	\$4,800.00	\$4,800.00	\$5,180.00
Fire Inspections	\$3,000.00	\$3,500.00	\$3,000.00	\$2,500.00	\$3,000.00	\$3,000.00	\$3,000.00
Fuel	\$4,125.00	\$4,801.00	\$4,495.00	\$4,546.00	\$5,425.00	\$6,184.00	\$7,675.00
Insurance	\$4,897.00	\$4,943.00	\$5,004.00	\$7,028.00	\$9,210.00	\$10,120.00	\$9,002.00
Miscellaneous Expenditures	\$708.00	\$7,317.00	\$9,730.00	\$14,586.00	\$5,833.00	\$677.00	\$2,781.00
Postage	\$121.00	\$146.00	\$83.00	\$73.00	\$148.00	\$74.00	\$74.00
Radios	\$7,664.00	\$4,622.00	\$3,750.00	\$3,371.00	\$2,842.00	\$8,539.00	\$8,635.00
Rent	\$178.00	\$209.00	\$11,422.00	\$11,242.00	\$7,508.00	\$50.00	\$0.00
Repairs	\$0.00	\$2,496.00	\$3,333.00	\$9,410.00	\$3,049.00	\$4,538.00	\$3,643.00
Secretary	\$750.00	\$1,050.00	\$900.00	\$750.00	\$900.00	\$900.00	\$900.00
Subscriptions	\$727.00	\$717.00	\$1,863.00	\$540.00	\$175.00	\$626.00	\$997.00
Supplies	\$3,675.00	\$8,390.00	\$14,070.00	\$6,958.00	\$9,574.00	\$8,548.00	\$11,499.00
Travel	\$1,410.00	\$2,123.00	\$4,270.00	\$5,683.00	\$3,718.00	\$4,999.00	\$3,103.00
Training	\$1,262.00	\$1,550.00	\$1,200.00	\$1,400.00	\$4,170.00	\$5,200.00	\$4,954.00
Utilities	\$2,917.00	\$4,469.00	\$6,076.00	\$4,493.00	\$4,467.00	\$5,140.00	\$5,686.00
Capital Outlay	\$10,869.00	\$2,165.00	\$2,390.00	\$34,240.00	\$46,931.00	\$23,062.00	\$398,919.00
Other	\$0.00	\$0.00			\$3,934.00	\$66,933.00	\$4,345
Total Expenditures	\$53,644.00	\$57,938.00	\$79,628.00	\$116,919.00	\$123,772.00	\$158,958.00	\$474,064.00



Beaver County Service District #2
Cash and Cash Equivalent - Eight Year Comparison
as of December 31st

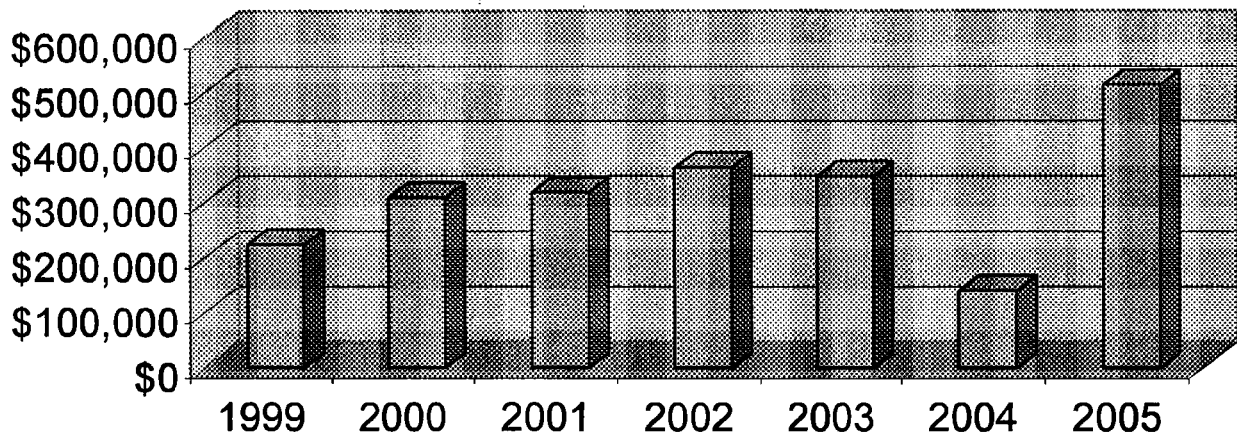
1999	2000	2001	2002	2003	2004	2005
\$64,213	\$94,193	\$109,938	\$88,989	\$54,036	\$89,259	\$92,486

Cash and Cash Equivalent



1999	2000	2001	2002	2003	2004	2005
\$222,874	\$307,539	\$317,333	\$362,084	\$346,515	\$139,511	\$513,208

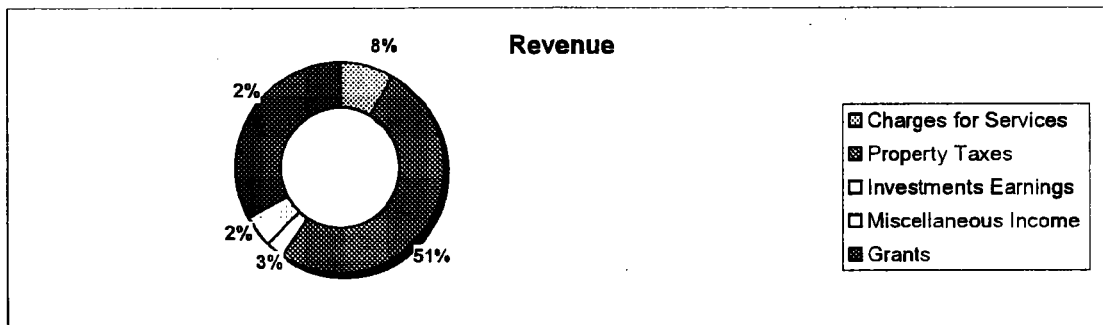
Fixed Assets



2005 Governmental Activities

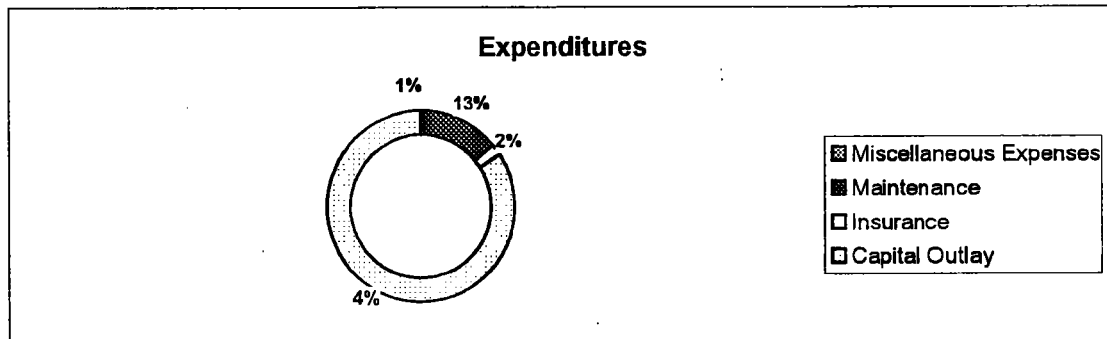
Revenue

Charges for Services	Property Taxes	Investments Earnings	Miscellaneous Income	Grants
\$11,150	\$68,886	\$3,742	\$6,614	\$44,000



Expenditures

Miscellaneous Expenses	Maintenance	Insurance	Capital Outlay
\$2,782	\$63,361	\$9,002	\$398,919



General Governmental Functions

Information below compares revenue and expenditures for 2004 and 2005.

Revenues by Source	2004	2005
Taxes	\$89,797	\$68,886
Investment Earnings	\$295	\$3,742
Charges for Services	\$4,175	\$11,150
Grant Income	\$18,812	\$44,000
Miscellaneous Income	\$81,909	\$6,614
Total Revenues	\$194,988	\$134,392
Expenditures by Source	2004	2005
Miscellaneous Expense	\$677	\$2,782
Maintenance	\$125,096	\$63,361
Insurance	\$10,120	\$9,002
Capital Outlay	\$23,062	\$398,919
	\$158,955	\$474,064

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BASIC FINANCIAL STATEMENTS

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Statement of Net Assets
DECEMBER 31, 2005

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 92,486
Receivables (net of allowance)	17,170
Noncurrent assets:	
Restricted cash and cash equivalents	49
Capital assets (net of accumulated depreciation):	
Land	20,000
Buildings and improvements	401,511
Machinery and equipment	91,698
Total assets	<u>622,914</u>
Liabilities	
Accounts payable	2,978
Interest payable	11,000
Noncurrent liabilities:	
Due within one year	33,000
Due in more than one year	382,000
Total liabilities	<u>428,978</u>
Net Assets	
Invested in capital assets, net of related debt	98,209
Restricted for capital outlay	49
Unrestricted	95,678
Total Net Assets	<u>\$ 193,936</u>

The accompanying notes are an integral part of the financial statements

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)

Statement of Activities

For the Year Ended December 31, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Capital Grants & Contributions	
Governmental activities:				
Public safety-fire	\$ 102,220	\$ 28,320	\$ 44,000	\$ (29,900)
Interest on long-term debt	11,000			(11,000)
Total governmental activities	<u>113,220</u>	<u>28,320</u>	<u>44,000</u>	<u>(40,900)</u>
General Revenues:				
Taxes:				
Property taxes				65,062
Fee-in-lieu				3,824
Miscellaneous income				6,614
Unrestricted investment earnings				3,742
Total general revenues				<u>79,242</u>
Change in net assets				<u>38,342</u>
Net assets - beginning				168,312
Prior period adjustment				(12,718)
Net assets - ending				<u>\$ 193,936</u>

The accompanying notes are an integral part of the financial statements

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Balance Sheet
Governmental Funds
DECEMBER 31, 2005

	General Fund	Total Governmental Funds
Assets:		
Cash and Investments	\$ 92,486	\$ 92,486
Accounts receivable	-	-
Due from other governments	-	-
Restricted cash	49	49
Total Assets	<u>\$ 92,535</u>	<u>\$ 92,535</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 2,978	\$ 2,978
Total Liabilities	<u>2,978</u>	<u>2,978</u>
Fund Balances:		
Reserved for:		
Reserved for construction project	49	49
Unreserved:		
Designated for capital projects	-	-
Unreserved	89,508	89,508
Total fund balances	<u>89,557</u>	<u>89,557</u>
Total Liabilities and fund balance	<u>\$ 92,535</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	513,209
Noncurrent accounts receivable used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,170
Some liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(426,000)
Net assets of governmental units	<u>\$ 193,936</u>

The accompanying notes are an integral part of the financial statements

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General Fund	Total Governmental Funds
Revenues:		
Current property taxes	\$ 56,710	\$ 56,710
Delinquent property taxes	8,352	8,352
Fee-in-lieu taxes	3,824	3,824
Incident income	11,150	11,150
Grant revenue	44,000	44,000
Other revenues	6,614	6,614
Interest revenue	3,742	3,742
	<hr/>	<hr/>
Total Revenues	134,392	134,392
	<hr/>	<hr/>
Expenditures:		
Current:		
Administration	32,610	32,610
Fire protection and emergency services	42,535	42,535
Debt service	-	-
Capital outlay	398,919	398,919
	<hr/>	<hr/>
Total Expenditures	474,064	474,064
	<hr/>	<hr/>
Excess of Revenues Over/(Under) Expenditures	(339,672)	(339,672)
	<hr/>	<hr/>
Other Financing Sources (Uses):		
Bond proceeds	-	-
	<hr/>	<hr/>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(339,672)	(339,672)
	<hr/>	<hr/>
Fund Balance - Beginning of Year	105,989	105,989
	<hr/>	<hr/>
Prior Period Adjustment	323,240	323,240
	<hr/>	<hr/>
Fund Balance - End of Year	\$ 89,557	\$ 89,557
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Fund
To the Statement of Activities
DECEMBER 31, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental fund	\$ (339,672)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	371,844
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	-
Issuance of long-term debt provides current financial resources in the governmental funds but increases long-term liabilities in the statement of net assets.	-
Long-term accounts receivable are not reported as a revenue in the fund financial statements, while it is recorded in the statement of activities	17,170
Accrued interest for long-term debt is not reported as an expenditure in the governmental funds, but it is recorded in the statement of activities	(11,000)
Change in net assets of governmental activities	<u>\$ 38,342</u>

The accompanying notes are an integral part of the financial statements

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 1. Significant Accounting Policies

General

The accounting and reporting policies of the Beaver County Special Service District #2 (The District) conform with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The District, a component unit of Beaver County was established March 4, 1976 by the Beaver County Commission. The District provides fire protection services for the communities of Milford and Minersville and their surrounding areas. The Accompanying financial statements include all activities of the District. The District has one component unit, The Municipal Building Authority of Beaver County #2, which was created in 2004 for the issuance of the 2004 Lease Revenue Bonds. That component unit is blended in these financial statements.

Government-Wide Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information about the District, the primary government, as a whole.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 1. Significant Accounting Policies, Continued

The use of financial resources to acquire capital assets is capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long term debt of the District are reported as a reduction of a related liability, rather than as expenditures in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available. "Measurable" means that the amounts can be reasonably determined within the current period. "Available" means that the amounts are collectible within the current period, or soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the liability is incurred, except for interest on long-term debt, which is recognized when due.

The **General Fund** is used to account for all financial resources applicable to the general operations of the District.

Budgets and Budgetary Accounting

Annual budgets are prepared and adopted by resolution by the Board on or before December 15th for the following calendar year in accordance with State law. Prior to adoption of the budget a public hearing is conducted to obtain taxpayer input. The budget includes proposed expenditures and the proposed sources of financing for such expenditures and is adopted on a basis consistent with generally accepted accounting principals using the modified accrual basis of accounting. Budgets are adopted and control of budget appropriations are exercised under State law, at the department level. Budget amendments are required to increase expenditure budgets. During the current fiscal year there were no amendments to the budget.

Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net assets.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 1. Significant Accounting Policies, Continued

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the Statement of Net Assets. Infrastructure such as streets, traffic signals and signs are capitalized. The District has no infrastructure assets. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 30 years; equipment, 5 to 10 years.

Net Assets

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by other governments, creditors or grantors.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

Compensated Absences

There are no accruals for accumulated sick and vacation as the District currently does not have any full-time employees.

Inventory

The costs of governmental fund inventories are recorded as expenditures when purchased. Also, the District's inventory of materials and supplies is deemed to be immaterial; thus, no provision for inventory has been made in these financial statements.

Risk Management

The District maintains insurance for general liability, auto liability, collision, property damage, comprehensive fire & theft, and fidelity bonds.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 1. Significant Accounting Policies, Continued

Property Taxes

Property taxes are collected by the Beaver County Treasurer and remitted to the District in periodic installments. Taxes are levied and are due and payable on November 1 and delinquent after November 30 of each year at which time they become liens if not paid.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Receivables

All trade accounts receivable in the general fund are shown net of an allowance for uncollectibles. Due to the nature of the accounts receivable in governmental activities, management does not consider an allowance for uncollectible accounts receivable necessary or material. Therefore, no allowance for uncollectible accounts receivable is presented.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement

of net assets versus the current financial resources focus of the governmental fund balance sheets.

One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds."

Explanation of differences between governmental fund statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities:

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follows:

Capital Outlay	\$ 398,919
Depreciation Expense	<u>(27,075)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental funds	<u>\$ 371,844</u>

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 3. Deposits and Investments

Deposits and investments of the District at December 31, 2005 consisted of the following:

Deposits	
Cash in bank	\$ 37,709
Investments	
State treasurer's investment pool	54,826
	<u>\$ 92,535</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets is as follows:

Unrestricted cash and cash equivalents	\$ 92,486
Restricted cash and cash equivalents	49
	<u>\$ 92,535</u>

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the District's deposit may not be returned to it. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, none of the District's bank balance of \$41,490 was exposed to custodial credit risk because it was uninsured and uncollateralized.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 3. Deposits and Investments, Continued

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poor's, bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

Note 3. Deposits and Investments, Continued

As of December 31, 2005 the District had the following investments and maturities:

Investment Type	Fair Value	Investments Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
Utah State Public Treasurer's Investment Fund	\$ 54,826	\$ 54,826	\$ -	\$ -	\$ -
Total Fair Value	<u>\$ 54,826</u>	<u>\$ 54,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

At December 31, 2005 the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Ratings			
		AAA	AA	A	Unrated
Utah State Public Treasurer's Investment Fund	\$ 54,826	\$ -	\$ -	\$ -	\$ 54,826
Total Fair Value	<u>\$ 54,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,826</u>

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 4. Capital Assets

Capital asset activity for the year ended DECEMBER 31, 2005 is as follows;

Governmental Activities:

	<u>Balance</u> <u>12/31/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2005</u>
Capital assets, not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Total capital assets, not being depreciated	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Capital assets, being depreciated:				
Buildings and Improvements	100,092	353,115	-	453,207
Machinery, Equipment & Apparel	<u>258,485</u>	<u>47,656</u>	<u>35,700</u>	<u>270,441</u>
Total capital assets, being depreciated	<u>358,577</u>	<u>400,771</u>	<u>35,700</u>	<u>723,648</u>
Less accumulated depreciation for:				
Buildings and Improvements	(44,437)	(7,260)		(51,697)
Machinery, Equipment & Apparel	<u>(194,628)</u>	<u>(19,815)</u>	<u>(35,700)</u>	<u>(178,743)</u>
Total accumulated depreciation	<u>(239,065)</u>	<u>(27,075)</u>	<u>(35,700)</u>	<u>(230,440)</u>
Total capital assets, being depreciated, net	<u>119,512</u>	<u>373,696</u>	<u>-</u>	<u>493,208</u>
Governmental activities capital assets, net	<u>\$ 139,512</u>	<u>\$ 373,696</u>	<u>\$ -</u>	<u>\$ 513,208</u>

The entire \$27,075 of depreciation was charged to the governmental activity, public safety.

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 5. Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2005.

	Balance 12/31/2004	Additions	Retirements	Balance 12/31/2005	Current Portion
Revenue bonds payable	\$ 415,000	\$ -	\$ -	\$ 415,000	\$ 33,000
Total long-term liabilities	\$ 415,000	\$ -	\$ -	\$ 415,000	\$ 33,000

Bonds Payable at December 31, 2005 consists of the following issue:

Revenue Bonds

Lease Revenue Bond Series 2004 due in annual principal and interest installments ranging from \$26,125 to \$49,661 bearing interest at 2.50%, maturing August 1, 2024.

\$ 415,000

Total bonds payable

\$ 415,000

The annual requirements to amortize bonds payable at December 31, 2005 are as follows:

Fiscal Year Ended Dec 31	2004 Lease Revenue Bond	
	Principal	Interest
2006	\$ 33,000	\$ 16,661
2007	17,000	9,975
2008	17,000	9,550
2009	18,000	9,125
2010	18,000	8,700
2011-2015	99,000	36,575
2016-2020	111,000	23,925
2021-2022	102,000	9,625
Total	<u>\$ 415,000</u>	<u>\$ 124,136</u>

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
Notes to the Financial Statements
DECEMBER 31, 2005

NOTE 6. Utah State Retirement Plans

Beaver County Special Service District #2 does not participate in the Utah State Retirement Plan or any other retirement plan.

NOTE 7. Prior Period Adjustment

The December 31, 2004 financial statements erroneously excluded \$339,259 of the 2004 Revenue Lease Bond, which was issued on December 9, 2004. The December 31, 2004 governmental fund's financial statements also erroneously included \$16,019 of accounts receivable which were not available at the financial statement date or within the subsequent 60 day period required for recognition.

REQUIRED SUPPLEMENTARY INFORMATION

BEAVER COUNTY SPECIAL SERVICE DISTRICT #2
(A Component Unit of Beaver County, Utah)
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget to Actual
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Current property taxes	\$ 60,000	\$ 60,000	\$ 56,710	\$ (3,290)
Delinquent property taxes	\$ 5,000	5,000	8,352	3,352
Fee-in-lieu taxes	2,500	2,500	3,824	1,324
Incident Income	15,000	15,000	11,150	(3,850)
Grants	2,000	2,000	44,000	42,000
Other revenues	-	-	6,614	6,614
Interest revenue	1,000	1,000	3,742	2,742
Total Revenues	85,500	85,500	134,392	48,892
Expenditures:				
Current:				
Administration	27,300	27,300	32,610	(5,310)
Fire protection and emergency services	25,200	25,200	42,535	(17,335)
Debt service	-	-	-	-
Capital outlay	448,000	448,000	398,919	49,081
Total Expenditures	500,500	500,500	474,064	26,436
Excess of Revenues Over/(Under) Expenditures	(415,000)	(415,000)	(339,672)	75,328
Other Financing Sources (Uses):				
Debt Proceeds	415,000	415,000	-	(415,000)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	(339,672)	(339,672)
Fund Balance - Beginning of Year	105,989	105,989	105,989	-
Prior Period Adjustment			323,240	323,240
Fund Balance - End of Year	\$ 105,989	\$ 105,989	\$ 89,557	\$ (16,432)

The accompanying notes are an integral part of the financial statements.

OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**Report on Compliance with Laws and Regulations and on
Internal Control Over Financial Reporting Based on
an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

To the Board of Directors
Beaver County Special Service District #2
Milford, Utah 84751

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the financial statements of the governmental activities of Beaver County Special Service District #2 as of and for the year ended December 31, 2005, and have issued our report thereon, dated June 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain instances of noncompliance, which we have reported to the management of the District in the findings and recommendations letter dated June 5, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Milford Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the board, management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.

June 5, 2006



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

**Independent Certified Public Accountants'
Report on State Legal Compliance**

To the Board of Directors
Beaver County Special Service District #2
Milford, Utah 84751

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

We have audited the financial statements of the governmental activities of Beaver County Special Service District #2 as of and for the year ended December 31, 2005, and have issued our report thereon dated June 5, 2006. As part of our audit, we have audited the Beaver County Special Service District #2's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah.

Community Impact Grants (Department of Community and Economic Development)

Our audit also included test-work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation
General Compliance Requirements of Special Districts
Other General Compliance Issues

The Board of the Service District is responsible for the Service District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Service District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying findings and recommendations letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Beaver County Special Service District #2 complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

Kemp, Burdick, Hinton & Hall, L.C.

KEMP, BURDICK, HINTON & HALL, L.C.

June 5, 2006



KEMP BURDICK

KEMP BURDICK HINTON & HALL L.C.

CPA'S & ADVISORS

Findings and Recommendations

To Management and the Board of Directors
Beaver County Special Service District #2
Milford, Utah 84751

MEMBERS:

KRIS J. BRAUNBERGER
DEAN R. BURDICK
ROBERT COX
BRENT R. HALL
KENNETH A. HINTON
GREGORY A. KEMP
MORRIS J. PEACOCK
MICHAEL K. SPILKER
MARK E. TICHENOR

Observations made during our audit evidence the fact that as District officials, you are diligently fulfilling your stewardships to the citizens of your District. We noted a few circumstances that, if improved, would strengthen the District's accounting system and control over its assets. These items are listed below for your consideration.

State Compliance Findings and Recommendations:

1. Fund Balance Limitation

We found in our audit that the District's fund balance is in excess of the current year's legal limit of \$68,886.

Recommendation

We recommend that the District reduce its fund balance during 2006 to bring it within the State's legal limit.

2. Budgeted Property Tax Revenue

We noted in our state compliance test-work that the budgeted property tax revenue as shown on Form PT-693-SSD did not agree with the District's formally adopted budget. State law requires them to agree.

Recommendation

We recommend that in the future, the District ensure that the formally adopted budget include the same amount for property tax revenue as it reports on Form PT-693-SSD.

General Findings and Recommendations:

1. Finding – Fixed Asset Inventory

We noted during our test work that the district did not perform a fixed asset inventory at year end to ensure the accuracy of the fixed asset listing.

Recommendation

We recommend that the District perform a fixed asset inventory at year end and reconcile the inventory to the general ledger.

It has been a pleasure to be of service to the District again this past year. If we can be of further assistance in any way to assist you in fulfilling your stewardships, please contact us at any time. We look forward to a continued pleasant professional relationship.

Sincerely,

Kemp, Burdick, Hinton & Hall, L.C.

Kemp, Burdick, Hinton & Hall, LC

June 5, 2006

Beaver County Service District #2

June 28, 2006

P.O. Box 125

Midford, Utah 84751

June 28, 2006

MacRay Curtis
Office of the Utah State Auditor
211 State Capitol
Salt Lake City, Utah 84114

Re: Schedule of Findings and Questioned Costs

Dear Sirs,

Following is Beaver County Service District #2 response to the Schedule of Findings and Questioned Costs for year 2005.

Finding #1 – Fixed Asset Inventory

We are currently verifying the inventory for the district. A complete inventory list will be presented to our auditors for year end 2006.

Finding #2 – Fund Balance Limitation

We will make every attempt to reduce the fund balance during 2006 to comply with state legal limits.

Finding #3 – Budgeted Property Tax Revenue

We will continue to monitor the budget figures to ensure the property tax revenue and the amount reported on Form PT-693-SSD matches

Sincerely,



Nedra Kennedy
Treasurer